



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0454	Title:	Revise college saving tax deduction
Primary Sponsor:	McGillvray, Tom	Status:	As Introduced

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Revenue:				
General Fund	(\$27,823)	(\$61,190)	(\$100,099)	(\$145,557)
Net Impact-General Fund Balance	<u>(\$27,823)</u>	<u>(\$61,190)</u>	<u>(\$100,099)</u>	<u>(\$145,557)</u>

Description of fiscal impact:

This bill would allow taxpayers to deduct up to \$3,000 of contributions to qualified college savings or tuition pre-payment programs in calculating their adjusted gross income for income tax purposes. This would reduce income tax revenue from taxpayers using the deduction.

FISCAL ANALYSIS

Assumptions:

1. Current law allows taxpayers to deduct up to \$3,000 of contributions to Montana family education savings accounts in calculating their adjusted gross income. This bill would make contributions to a qualified tuition program allowed by Section 529 of the Internal Revenue Code eligible for this deduction, beginning in 2007.
2. The HJR 2 income tax forecast assumes deductions of \$8,721,989 for 2007, \$9,590,846 for 2008, and \$10,459,703 for 2009. The annual growth rate for 2009 is 9.0592%. This growth rate is assumed to hold for 2010 also, so that deductions for 2010 will be \$11,407,268 (\$10,459,703 x 109.0592%).
3. With more college savings options eligible, use of the deduction will increase. As taxpayers will become more aware of the increased options, the impact will increase for several years and then stabilize. This bill is assumed to increase the amount of deductions by 5% in 2007, 10% in 2008, 15% in 2009, and 20% in

2010. Additional deductions will be \$436,099 in 2007 (5% x \$8,721,989), \$959,085 in 2008 (10% x \$9,590,846), \$1,568,955 in 2009 (15% x \$10,459,703), and \$2,281,454 in 2010 (20% x \$11,407,268).

4. The average marginal tax rate of taxpayers who used the deduction in 2005 was 6.38%. Taxpayers who use the deduction in future years are assumed to have the same average marginal tax rate. The increase in deductions will reduce tax liability by \$27,823 for tax year 2007 (6.38% x \$436,099), by \$61,190 for tax year 2008 (6.38% x \$959,085), by \$100,099 for tax year 2009 (6.38% x \$1,568,955), and by \$145,557 for tax year 2010 (6.38% x \$2,281,454).
5. The increased deductions will result in smaller tax payments and larger refunds when taxpayers file returns in the spring following each tax year. The tax liability reductions for tax years 2007 through 2010 calculated in assumption 4 will show up as revenue reductions in fiscal years 2008 through 2011.
6. This bill would have no impact on the Department of Revenue's costs of administering the individual income tax.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund (01)	(\$27,823)	(\$61,190)	(\$100,099)	(\$145,557)
TOTAL Revenues	(\$27,823)	(\$61,190)	(\$100,099)	(\$145,557)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$27,823)	(\$61,190)	(\$100,099)	(\$145,557)

Effect on County or Other Local Revenues or Expenditures:

1. None.

Long-Range Impacts:

1. Revenue reductions from this bill would continue after FY 2011.

Technical Notes:

1. Section 1 of the bill amends section 15-30-111, MCA, by inserting language to exclude distributions from a qualified tuition program from Montana adjusted gross income. Distributions from qualified tuition programs are not included in federal adjusted gross income, and therefore, are automatically excluded from Montana adjusted gross income.
2. Taxpayers are required to pay a recapture tax on withdrawals that are not used for qualified education expenses and for which a deductions was originally claimed. Allowing the deduction for contributions to out-of-state accounts may make it more difficult to determine when recapture tax should be levied.

Sponsor's Initials

Date

Budget Director's Initials

Date